

VZCZCXRO6742  
RR RUEHAG RUEHBC RUEHDE RUEHDF RUEHIK RUEHKUK RUEHLZ RUEHROV RUEHSR  
DE RUEHLB #1798/01 3651011  
ZNR UUUUU ZZH  
R 301011Z DEC 08  
FM AMEMBASSY BEIRUT  
TO RUEHC/SECSTATE WASHDC 3867  
INFO RUEHEE/ARAB LEAGUE COLLECTIVE  
RUCNMEM/EU MEMBER STATES COLLECTIVE  
RHEHAAA/NSC WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/USDOC WASHDC

UNCLAS SECTION 01 OF 02 BEIRUT 001798

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STATE FOR NEA/ELA  
STATE PASS USTR FRANCESCKI  
STATE PASS USAID BEVER/LAUDATO/SCOTT  
TREASURY FOR MNUAGENT AND SBLEIWEISS  
USDOC FOR 4520/ITA/MAC/ONE  
NSC FOR ABRAMS/RAMCHAND/YERGER/MCDERMOTT

E.O. 12958: N/A

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SUBJECT: LEBANON: CENTRAL BANK GOVERNOR PROJECTS HIGHER DEFICIT AND  
INFLATION IN 2009 (ECONOMIC WEEK IN REVIEW, DECEMBER 22 - 24, 2008)

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CENTRAL BANK GOVERNOR PROJECTS HIGHER  
DEFICIT AND INFLATION IN 2009  
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[1](#)1. (U) In a televised interview on December 21, Central Bank of  
Lebanon (CBL) Governor Riad Salameh said the deficit will reach  
\$2.66 billion in 2009, and will further grow by ten percent as a  
result of the recently approved salary increases in the public  
sector. He also indicated that inflation will be higher than  
projected earlier (six percent), and will range between eight and  
ten percent, due to higher liquidity in the market resulting from  
salary increases and the drop in oil prices. However, Salameh said  
the CBL has record high foreign currency assets (excluding gold)  
exceeding \$19 billion, and the CBL is buying dollars from the market  
daily, thus increasing its ability to maintain a stable local  
currency. He also noted that surplus in subscriptions in Treasury  
Bills and sovereign paper will enable the GOL to cover maturities in  
[1](#)2009.

ECONOMIC ACTIVITY UP DURING END OF YEAR HOLIDAYS;  
REAL ESTATE MARKET UNAFFECTED BY GLOBAL CRISIS  
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[1](#)2. (U) On December 22, economic editorialist in moderate anti-Syrian  
An-Nahar Sabine Oueiss reported that for the first time since 2005,  
economic indicators showed increased economic activity in December  
2008 due to the end of year holiday season. Flight bookings to  
Lebanon from all destinations are full. Hotel occupancy reached a  
record 100 percent in Beirut during the end of December, according  
to Tourism Ministry Director General Nada Sardouk, and recorded an  
average of 70-90 percent all over Lebanon, Oueiss said. Commercial  
activity has also picked up with an estimated increase in sales of

40 percent. PM Siniora recently estimated that growth could reach seven percent in 2008, Oueiss noted.

13. (U) Meanwhile, Oueiss said the local real estate market will not be affected by the global crisis at the present time, because demand continues to exceed supply and prices have not dropped, according to real estate experts. Prices of apartments rose by 40 percent in the first half of 2008, following an annual increase of 30 percent over the last three years, the report indicated, adding that experts consider prices to be currently in a correction phase, anticipating a drop in apartments' prices between ten and 20 percent due to the drop in the prices of construction materials and the Euro. Moreover, the report indicated that the increase in demand from the Lebanese Diaspora for property acquisition, which comprises 80 percent of total demand, versus a drop in demand from Gulf investors, has maintained real estate market stability as Gulf investors may pull out from the market due to a liquidity squeeze.

FINANCE MINISTER SIGNS \$85 MILLION  
SOFT LOAN FROM ARAB MONETARY FUND  
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14. (SBU) On December 22, Minister of Finance (MOF) Mohammad Chatah and Arab Monetary Fund (AMF) President Jassem Al-Manaai signed an \$85 million soft loan under a budgetary support to help countries importing oil scheme, MOF senior economic officer Huda Saigh told us. This assistance is part of AMF's Paris III pledges to provide Lebanon with \$150 million in loans for budgetary support. Last year, the MOF signed a \$32 million loan agreement with the AMF for structural adjustment and fiscal reforms, and a \$43 million loan for risk mitigation and accounting project with the Central Bank. All these loans need to

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be approved by Parliament.

15. (SBU) According to Saigh, this is the first time that the AMF is extending budgetary support under this scheme to Lebanon. She noted that Lebanon continues to benefit from revolving credit lines for fuel imports under AMF's Arab Trade Financing Program. The AMF also pledged a \$100 million loan for private sector support at Paris III, which has been entirely disbursed, Saigh said.

WORLD BANK: REAL SECTOR WILL BE HIT BY GLOBAL  
CRISIS, GDP TO DECREASE IN 2009  
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16. (U) According to the World Bank's (WB) latest Global Economic Prospects 2009 report, Lebanon's real sector (industry, trade) is expected to be affected by the repercussions of the global financial crisis. This comes in contrast to the banking sector, which has still not displayed signs of contagion. The real economic slowdown will lead to a drop in Lebanon's GDP from 5.5 percent in 2008, to four percent in 2009.

AUCTION FOR CELLULAR VANITY  
NUMBERS RAISES OVER \$700,000  
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17. (U) On December 22, Alfa, the cellular company currently managed by the Ministry of Telecommunications (MOT), raised \$710,000 from the auction of 50 vanity numbers, bringing additional revenues to the Treasury. Last October, the MOT collected \$2.5 million from the auction of 30 vanity numbers. Minister of Telecommunications Gebran Bassil restated the MOT's intention to use the revenues from the first auction to improve the network, saying that the signing of contracts for this purpose are about to be signed, and work will start at the beginning of next year, Bassil said.

MOODY'S REVISES OUTLOOK  
OF FOUR LEBANESE BANKS  
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18. (U) Moody's Investors Service revised the outlook to positive from stable on the B3 long-term foreign currency deposit rating of Byblos Bank, BLOM Bank, Bank Audi, and Bank of Beirut. This comes

days after Moody's raised its outlook on Lebanon's sovereign ratings to positive from stable.

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